

Message Text

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ACTION ARA-10

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC IMMEDIATE 7746

INFO TREASURY WASHDC IMMEDIATE

AMEMBASSY MANILA IMMEDIATE

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MANILA PASS USDEL TO BANK/FUND MEETINGS, ATTN. R. ERB.

E. O. 11652: N/A

TAGS: EFIN MX

SUBJECT: BANK OF MEXICO CREDIT GUIDELINES AND SPECIAL DISCOUNT
MECHANISM.

1. SUMMARY. BANK OF MEXICO CIRCULAR DATED SEPTEMBER 28
ISSUED CRITERIA FOR BANK CREDIT AND EXPANDED SPECIAL DISCOUNT
MECHANISM FOR PURPOSE OF PERMITTING BANKS TO FINANCE INCREASED
COSTS ASSOCIATED WITH DEVALUTIONA. FINANCE MINISTRY SOURCE
INDICATES THAT CONCERN OF FOREIGN BANKERS RE ABILITY OF
PRIVATE FIRMS TO MEET INCREASED PESO COST OF FOREIGN
CURRENCY DEBT WAS FACTOR IN EXPANDING DISCOUNT MECHANISM.
END SUMMARY.

2. CREDIT CRITERIA ISSUED WAS AS FOLLOWS: (A) INCREASE,
AS POSSIBLE, FINANCING FOR INVENTORIES AND NEW INVESTMENTS
COSTS FOR WHICH HAVE RISEN, (B) RENEW DOLLAR CREDITS
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FOR COMPANIES WITH SERIOUS LIQUIDITY PROBLEMS DUE TO

FOREIGN CURRENCY INDEBTEDNESS, AT LEAST UP TO THE INCREASED PESO COST OF THE FOREIGN DEBT; (C) ENCOURAGE SUBSIDIARIES OF FOREIGN OWNED COMPANIES TO OBTAIN THEIR FINANCING REQUIREMENTS FROM ABROAD; (D) ENCOURAGE OTHER COMPANIES THAT CAN TO OBTAIN EXTERNAL FINANCING.

3. TO ASSIST BANKS IN MEETING OBJECTIVES MENTIONED IN (A) AND (B) ABOVE, THE BANK OF MEXICO IS LIBERALIZING THE RULES REGARDING ITS "CURRENT ACCOUNT" DISCOUNT MECHANISM AND IS PROVIDING AN ADDITIONAL FOUR BILLION PESOS TO BANKS THROUGH THIS FACILITY.

4. THE "CURRENT ACCOUNT CONTRACTS" WERE ESTABLISHED IN LATE JUNE TO ENABLE BANKS TO MAINTAIN A VOLUME OF CREDIT THAT MIGHT NOT OTHERWISE BE POSSIBLE DUE TO THE SWITCHING FROM PESO TO DOLLAR ACCOUNTS. THE "CURRENT ACCOUNT CONTRACT" IS BETWEEN A FINANCIAL INSTITUTION AND THE BANK OF MEXICO. THE CONTRACT PERMITS THE FINANCIAL INSTITUTION TO MAINTAIN A "FINANCING CAPACITY" NOT LESS THAN A BASE PERIOD. THIS BASE PERIOD CAN NOW BE ANY MONTH DURING 1976 OR THE FIRST HALF OF SEPTEMBER. THE FINANCIAL INSTITUTION CAN NOW DRAW ON ITS "CURRENT ACCOUNT" UP TO 15 PERCENT (FORMERLY 5 PERCENT) OF ITS DAILY AVERAGE LIABILITIES IN DOMESTIC AND FOREIGN CURRENCIES DURING THE BASE PERIOD. TO DETERMINE THE "FINANCING CAPACITY" FOR BASE PERIODS PRIOR TO SEPTEMBER 1, DOLLAR LIABILITIES ARE TO BE CONVERTED TO PESOS AT ONE TO TWENTY.

5. THE BANK OF MEXICO WILL SUPPORT THE FINANCIAL INSTITUTIONS WITH FOUR BILLION PESOS, OF WHICH TWO BILLION WILL BE MADE AVAILABLE IN OCTOBER, AND ONE BILLION IN BOTH NOVEMBER AND DECEMBER. THESE FUNDS ARE TO BE DISTRIBUTED AMONG FINANCIAL INSTITUTIONS ON A PRO RATA BASIS AS FOLLOWS: 2 BILLION BASED ON TOTAL LOAN PORTFOLIO AND TWO BILLION BASED ON FOREIGN CURRENCY LOAN PORTFOLIO, ACCORDING TO END-JULY DATA.

6. THE BANK OF MEXICO HAS ALSO ADJUSTED THE CEILING ON FOREIGN CURRENCY LIABILITIES TO TAKE ACCOUNT OF THE LIMITED OFFICIAL USE

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REATE CHANGE. FOREIGN CURRENCY LIABILITIES WERE TO BE NO MORE THAN 10 PERCENT OF TOTAL LIABILITIES, BUT THE BANK OF MEXICO HAD EARLIER PERMITTED VIRTUALLY UNLIMITED ACCEPTANCE OF DOLLAR DEPOSITS BY SEPARATE AGREEMENTS WITH FINANCIAL INSTITUTIONS THAT MIGHT OTHERWISE HAVE TO DECLINE TO ACCEPT SUCH DEPOSITS.

7. COMMENT: ACCORDING TO MIDDLE LEVEL FINANCE MINISTRY

SOURCE, THESE MEASURES RESULT IN PART FROM PRESSURE FROM FOREIGN BANKERS TO ASSIST COMPANIES THAT MIGHT OTHERWISE HAVE DIFFICULTY IN MEETING FOREIGN OBLIGATIONS. THE SO-CALLED CREDIT CRITERIA CONCERNING BORROWING ABROAD BY SUBSIDIARIES OF FOREIGN COMPANIES IS NOT NEW, AND HAS BEEN AVOIDED BY AT LEAST SOME LOCAL SUBSIDIARIES WHO SAY THEY CAN GET PESO CREDITS BECAUSE OF THEIR GOOD CREDIT STANDING. IT SHOULD BE RECALLED THAT IN REGARD TO (B) IN PARAGRAPH TWO THAT MEXICAN BANKS HAVE BEEN INCREASING THEIR DOLLAR-DENOMINATED LENDING BECAUSE OF THE SWITCH TO DOLLAR DEPOSITS THAT IS CONTINUING. IMPACT OF NEW MEASURES ON TOTAL CREDIT OUTSTANDING IS HARD TO DETERMINE. TO THE DEGREE THAT FOUR BILLION PESO INPUT MERELY REPLACES LOST DEPOSITS, THEN THERE SHOULD BE NO SIGNIFICANT INCREASE IN TOTAL CREDIT. IF FOUR BILLION PESOS ARE IN FACT ADDITIONAL, THIS COULD LEAD TO AN INCREASE IN THE MONEY SUPPLY OF APPROXIMATELY SIX PERCENT, ACCORDING TO A BANK OF MEXICO SOURCE.

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